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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 001329

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SUBJECT: Honduran President Zelaya Discusses Fuel,  
Electricity and the Economy with Ambassador

¶1. Classified by: Ambassador Charles Ford for reasons 1.4  
(b) and (d)

¶2. (C) Summary. Ambassador and A/DCM met with Honduran President Jose Manuel "Mel" Zelaya and Foreign Minister Milton Jimenez for more than an hour during the evening of July 23. Zelaya was relaxed and discussed plans for an international bid process to supply Honduras' petroleum needs, the sale of a Honduran importer and distributor of petroleum products, the country's macroeconomic situation, and his plans to reduce the cost of some privately generated electric power. A readout of the meeting follows. End Summary

The Fuel Bid

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¶3. (C) Zelaya said the draft terms of reference (TOR) for the proposed international oil bid would be made public via the Internet on July 25 and would be held open for public comment for ten days. Zelaya promised to provide the Ambassador a copy of the TOR. He noted that legal advisor Enrique Flores Lanza had originally planned to use a committee of experts to assess the draft TOR. Zelaya said the bid would be structured to use trade financing, not project financing.

¶4. (C) Zelaya saw three possible outcomes from the bid process. The winning bidder could already possess the needed storage and distribution facilities. The winning bidder might not possess the needed storage and distribution facilities, but would be able to acquire or build them within about one year. The third choice would be that the bid would fail. In this last case, Zelaya said he had reason to believe one or more of the existing multinational petroleum companies would offer Honduras a reduced price for petroleum.

Sale of DIPPSA

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¶ 15. (C) In response to the Ambassador's observation that DIPPSA exists because of the GOH-mandated structure of the petroleum market in Honduras, Zelaya said the GOH had nothing to do with DIPPSA's sale. FM Jimenez referred to the apparent buyer of DIPPSA, U.S. firm Caribbean Petrochemical Company, as a front company for Venezuela that would be hard to investigate. Zelaya directed Jimenez to find out on July 24 to whom DIPPSA owner Henry Arevelo had sold his firm. Despite averring to not knowing who had or would buy DIPPSA, Zelaya knew that Arevelo had paid USD 60 million for the firm and would sell it for USD 90 million. The Ambassador offered to use Embassy resources to help investigate the sale.

Macroeconomics

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¶ 16. (C) Zelaya identified two goals vis-a-vis the International Monetary Fund (IMF), to close the current agreement and to negotiate a new three-year agreement. He said he had spoken to senior Fund representatives and had requested flexibility to deal with the teachers' unions. Zelaya expressed confidence he could successfully negotiate with the teachers and meet Fund targets.

¶ 17. (C) Zelaya said he had increased liquidity in the Honduran economy by reducing the amount local banks are required to leave on deposit with the Central Bank. This has lead to reduced interest rates and a six percent growth rate for the economy. He said strong economic growth was leading to increased tax revenues. Zelaya recognized the risk of inflation, but said he had identified and could control the two main causes of inflation, rising fuel prices and increased taxes. Zelaya said the Fund was

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satisfied ("esta contento") with his plans.

Fuel Subsidies

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¶ 18. (C) The Ambassador asked Zelaya how he intended to get away from subsidizing fuel prices. Zelaya said the GOH could afford to continue; it is spending about USD 2 million a month or less than one percent of income. If oil prices continue to rise, he will go to targeted subsidies for buses, taxis, and transport companies. If oil hits USD 100 a barrel, it will be impossible to continue subsidies.

Reducing Cost of Electricity

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¶ 19. (C) Zelaya noted that the Government of Panama had just conducted an open bid for private energy providers and received bids of nine cents per kilowatt hour for coal-fired power and eleven for oil. Current contracts with Honduran private generators, who use oil, range in price from nine to 19 cents. Zelaya said the suppliers would, this week, accept long-term, renegotiated contracts that drop all prices to nine cents. The national energy firm resells the power for about 10 cents.

Venezuela

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¶ 10. (C) Zelaya said that during a recent regional meeting in Panama, Salvadoran President Tony Saca asked President Martin Torrijos to ask Venezuela not to meddle in Salvador's affairs by supporting FMLN candidates. Saca sought Central American solidarity to stop Venezuelan meddling in their affairs. Zelaya said GOH dealings with Venezuela would be purely commercial.

¶ 11. (C) The Ambassador, DCM, EconChief and ConGen will meet with FM Jimenez, Minister of Defense Aristedes Mejia, and legal advisor Flores Lanza on July 26 to continue

conversations on a range of issues.

Ford